



OLR RESEARCH REPORT

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REGULATING HOMEOWNERS' INSURANCE RATES

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You asked us to describe the state law regulating homeowners' insurance policy rates.

SUMMARY

State law (1) prohibits inadequate, excessive, or unfairly discriminatory homeowners' insurance rates and (2) requires property and casualty insurers to file with the insurance commissioner their rates, supplementary rate information, and any supporting information used for the rates ([CGS §§ 38a-686](#) and [38a-688](#)).

By law, a rate is inadequate if it is unreasonably low for the insurance provided and its continued use would endanger the insurer's solvency, destroy competition, or create a monopoly. Whether a rate is considered excessive depends on whether the existing homeowners' insurance market is competitive or noncompetitive. A rate in a competitive market is not excessive. A rate in a non-competitive market is excessive if it is unreasonably high for the insurance provided. The law does not define an unfairly discriminatory rate.

The level of the Insurance Department's oversight of rates depends on the status of the market. In a competitive market, insurers must file homeowners' insurance rates and supplementary rate information with the insurance commissioner but may use the rates without his approval ("file and use" system of rate regulation). The commissioner retains the power to approve rates before they take effect. In a non-competitive market, insurers must receive approval from the department before using

the rates (prior rate approval). The commissioner may disapprove a rate filing if the insurer fails to comply with rating requirements whether the market is competitive or noncompetitive. The state's current market is competitive, according to the Insurance Department.

Irrespective of the market conditions, the law permits insurers, until July 1, 2013, to file and use new rates for homeowners' insurance without the Insurance Department's prior approval if the rates increase or decrease by no more than 6%. This is referred to as "flex rating."

COMPETITIVE MARKET

Determining Competitive Market

A competitive homeowners' insurance market is presumed to exist unless the insurance commissioner, after a hearing, determines and issues a ruling that a reasonable degree of competition does not exist ([CGS § 38a-687](#)). Such a ruling remains in effect for three years after the date it is issued, unless (1) the commissioner renews it after a hearing and finds a reasonable degree of competition still does not exist or (2) an insurer successfully contests the ruling.

After a ruling has been in effect for at least one year but not more than two years, an insurer may contest it by requesting a hearing and presenting evidence of competition in the affected market. The commissioner must (1) hold a hearing within 60 days of the request, (2) notify all affected insurers in writing at least 15 days in advance, and (3) issue his findings within 30 days after the hearing. If he finds a continued lack of competition, his original ruling remains in effect. If he finds a reasonable degree of competition exists, his original ruling expires immediately.

Competitive Market Rates

Under the "file and use" system in a competitive market, insurers must file homeowners' insurance rates and supplementary information with the commissioner by the effective date of the new rates or the date that premium billing notices to insured persons reflect the new rates, whichever is earlier ([CGS § 38a-688\(a\)\(1\)](#)).

The commissioner retains the power to approve rates before they take effect if, after a hearing, he determines that the insurer's rates require closer supervision because of the insurer's financial condition or unfairly discriminatory rating practices. In such a case, the insurer must file its rates and supplementary and supporting information with the commissioner at least 30 days before the proposed effective date.

NON-COMPETITIVE MARKET

In a non-competitive market, insurers must file homeowners' insurance rates and supplementary and supporting information with the commissioner for his prior approval at least 30 days before their proposed effective date ([CGS § 38a-688\(a\)\(2\)](#)). If the commissioner needs more time to review the rates, he may extend this waiting period by an additional 30 days with written notice to the insurer. The rates are deemed approved at the end of the waiting period unless the commissioner disapproves them in the meanwhile. If he disapproves them, he must notify the insurer of the reasons in writing.

FLEX RATING

The law permits, until July 1, 2013, insurers to file new homeowners' insurance rates with the Insurance Department and use them immediately without receiving prior approval if they result in a statewide rate increase or decrease of no more than 6% for all products included in the filing ([CGS § 38a-688a](#)). The new rate cannot apply on an individual basis.

The law provides that an insurer may submit more than one rate filing using the 6% band in any 12-month period if the combined rate filings submitted within the 12 months do not result in a statewide rate change of plus or minus 6% for all products included in the filing.

Under the law, an insurer can apply a rate increase within the 6% band only on or after a policy renewal and after notifying the insured. The notification must specify the effective date of the increase.

The law specifies that any filings made pursuant to the 6% band requirements are deemed to comply with the existing rating laws, except that the commissioner may determine whether they are inadequate or unfairly discriminatory.

The law requires the commissioner to order the insurer to stop using a rate change within the 6% band on a specified date if he determines it is inadequate or unfairly discriminatory. The order must be in writing and detail why the rate is inadequate or unfairly discriminatory. An order issued more than 30 days after the filing is submitted to the department applies prospectively only and does not affect any contract issued before the order's effective date.

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